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E.O. 11652: N/A

TAGS: ETRD, EIND, EGEN, EEC

SUBJECT: EC COMMISSION SENDS EC COUNCIL BASIC POLICY PAPER ON
RAW MATERIALS AND THE DEVELOPING COUNTRIES

REF: A. EC BRUSSELS 4040 B. EC BRUSSELS 1369 C. EC BRUSSELS 1882

D. EC BRUSSELS 3337 E. EC BRUSSELS 4418 F. EC BRUSSELS 4417

G. EC BRUSSELS 4406 H. EC BRUSSELS 4344

1. SUMMARY: ON MAY 21 THE EC COMMISSION SENT THE EC COUNCIL
A COMMUNICATION ON RAW MATERIALS POLICY. THE COMMUNICATION
IS INTENDED TO BE THE BASIS OF EC COUNCIL CONSIDERATION OF
AN OVERALL APPROACH AND SPECIFIC LINES OF ACTION ON RAW
MATERIAL ISSUES AS THEY RELATE TO DEVELOPING COUNTRY PRO-
DUCERS. THREE IMPORTANT LINES OF ACTION PROPOSED ARE
REDUCING DEVELOPED COUNTRY TRADE BARRIERS TO IMPORTS OF LDC
SEMI-PROCESSED RAW MATERIALS, A PRODUCT-BY-PRODUCT APPROACH
TO COMMODITY AGREEMENTS AND THE ADAPTION OF A STABEX-TYPE
ARRANGEMENT ON A BROADER COMMODITY BASIS COVERING MORE
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DEVELOPING COUNTRIES. THE TEXT OF THE PAPER IS

SUMMARIZED BELOW. END SUMMARY.

2. THE MISSION HAS OBTAINED ON A CONFIDENTIAL BASIS THE FRENCH TEXT OF THE EC COMMISSION COMMUNICATION TO THE EC COUNCIL WHICH WAS AGREED UPON AT THE COMMISSION MEETING OF MAY 21 DIRECTED TO THE PROBLEMS OF RAW MATERIAL IN THE CONTEXT OF RELATIONS WITH DEVELOPING COUNTRIES WHICH ARE EXPORTERS OF RAW MATERIALS. (COPIES HAVE BEEN AIR POUCHED TO EUR/RPE AND US OECD.) THIS PAPER IS INTENDED TO BE THE BASIC DOCUMENT FOR COUNCIL DEVELOPMENT OF AN OVERALL FRAMEWORK AND SPECIFIC LINES OF ACTION FOR THE POSITIONS THE EC WILL TAKE IN THE UNGA 7TH SPECIAL SESSION AND OTHER FORA DEALING WITH RAW MATERIAL PROBLEMS. AS REQUESTED BY THE COUNCIL AT ITS MAY 5 MEETING (REF A), THE PAPER IS LIMITED TO RAW MATERIALS PROBLEMS AND LDC PRODUCING COUNTRIES AND DOES NOT ADDRESS RAW MATERIALS PROBLEMS IN A MORE GENERAL FRAMEWORK NOR AIM AT PROBLEMS OF SECURITY OF SUPPLY. THESE ISSUES HAVE BEEN TOUCHED ON IN EARLIER DOCUMENTS (SEE REFS B AND C). BECAUSE OF THE IMPORTANCE OF THIS COMMUNICATION, WE ARE SUMMARIZING IT A LENGTH.

3. BEGIN DOCUMENT SUMMARY: THE INTRODUCTION MAKES THE FOLLOWING POINTS: A) RECENT EVENTS HAVE UNDERLINED THE NECESSITY FOR A FUNDAMENTAL EXAMINATION OF INTERNATIONAL ECONOMIC RELATIONS; B. THE ECONOMIC DEVELOPMENT OF ALL CATEGORIES OF COUNTRIES DEPENDS ON CONTINUED AND BALANCED GROWTH OF INTERNATIONAL TRADE; C) BECAUSE OF INTERDEPENDENCE, IT IS INDISPENSABLE TO ESTABLISH A RELATIONSHIP OF SOLIDARITY AND CO-RESPONSIBILITY IN A CLIMATE OF COOPERATION IN WHICH THE DEVELOPING COUNTRIES DO NOT JUST SUPPLY A LIMITED NUMBER OF PRODUCTS NEEDED BY THE DEVELOPING COUNTRIES BUT ARE PARTNERS IN THE WORLD'S ECONOMIC GROWTH AND IN WHICH THEY HAVE A LARGER AND MORE JUST PART. (THE POINT HERE IS PARTICIPATION IN GROWTH, NOT JUST A SHIFTING OF EXISTING RESOURCES.)

4. THE TWO MAJOR ISSUES TO BE EXAMINED ARE: A) THE LIMITED OFFICIAL USE

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CONDITIONS UNDER WHICH RAW MATERIALS WILL BE PRODUCED AND MARKETING BY THE LDCS AND B) ALL OF THE POSSIBLE MEASURES TO INCREASE THE DEVELOPMENT OF THE LDCS. THESE ISSUES ARE VITAL FOR ALL COUNTRIES.

5. THE RECENT MEETINGS SUCH AS THE 6TH SPECIAL SESSION, UNCTAD, LIMA, ETC. HAVE SPELLED OUT THE DEMANDS OF THE DEVELOPING COUNTRIES AND HAVE SHOWN

THAT DESPITE THEIR DIVERGENT INTERESTS, THEY HAVE MAINTAINED A UNITED FRONT. THE DEMANDS EXPRESSED ARE:

A) FREE ACCESS TO THE MARKETS OF THE INDUSTRIALIZED COUNTRIES;

B) INCREASED OPPORTUNITIES TO PROCESS RAW MATERIALS IN DEVELOPING COUNTRIES;

C) THE EXERCISE OF FULL SOVEREIGNTY OVER MINERAL RESOURCES;

D) THE STABILIZATION OF EARNINGS DERIVED FROM RAW MATERIAL EXPORTS BY DEVELOPING COUNTRIES;

E) INDEXATION OF RAW MATERIALS IN RELATION TO MANUFACTURED PRODUCTS.

6. THE COMMISSION BELIEVES THAT THE EC MUST ADOPT A CLEAR AND CONSTRUCTIVE POLICY REGARDING THE ABOVE DEMANDS, PARTICULARLY SINCE FORTHCOMING INTERNATIONAL MEETINGS REQUIRE THAT SUCH POSITIONS BE TAKEN. THE COMMISSION THEN GOES ON TO PRESENT AN OVERALL APPROACH AND THE MAJOR LINES OF ACTION TO BE TAKEN WITHIN THE APPROACH.

7. "OVERALL APPROACH". THE ANALYTICAL CONSIDERATIONS REGARDING THE OVERALL APPROACH ARE AS FOLLOWS:

A) EACH PRODUCT PRESENTS ITS OWN PROPER CHARACTERISTICS WHICH MUST BE ADAPTED TO POSSIBLE SOLUTIONS;

B) WITH THE EXCEPTION OF CERTAIN PRODUCTS--AND NOTABLY THE TROPICAL AGRICULTURAL PRODUCTS--ALTHOUGH RAW MATERIALS MAY BE ESSENTIAL FOR DEVELOPING COUNTRIES REVENUES, RAW MATERIALS ARE PRODUCED AND EXPORTED CHIEFLY BY THE DEVELOPED COUNTRIES;

C) THE PRICE FLUCTUATIONS VARY CONSIDERABLY LIMITED OFFICIAL USE

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ACCORDING TO THE PRODUCT;

D) THE COMMUNITY WILL CONTINUE TO DEPEND ON IMPORTED RAW MATERIALS.

8. THE FOLLOWING ARE THE GENERAL PRINCIPLES THAT THE EC SHOULD ADOPT:

A) THE PRICE OF RAW MATERIALS MUST BE EQUITABLE AND REMUNERATIVE; EXCESSIVE PRICE FLUCTUATIONS MUST BE AVOIDED; PRICES MUST BE AT A LEVEL WHICH ENCOURAGES A LONG-TERM BALANCE BETWEEN PRODUCTION AND CONSUMPTION;

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B) THE ECONOMIC DEVELOPMENT OF DEVELOPING COUNTRIES MUST BE ENCOURAGED BY THE DIVERSIFICATION OF THEIR PRODUCTION, DEVELOPMENT AND TRANSFORMATION OF RAW MATERIALS IN THESE COUNTRIES, AND THE STABILITY OF THEIR EXPORT EARNINGS;

C) SPECIAL ATTENTION MUST BE PAID TO THE POOREST COUNTRIES;

D) THE NECESSITY FOR THE CONSUMING COUNTRIES TO HAVE A GUARANTEE OF THE STABILITY OF THEIR RAW MATERIAL SUPPLY MUST BE TAKEN INTO CONSIDERATION.

9. THE ABOVE APPROACH IMPLIES FINANCIAL COSTS AND THESE SHOULD BE ASSUMED BY THE INDUSTRIALIZED COUNTRIES, INCLUDING THE STATE-TRADING COUNTRIES, AS WELL AS OTHER COUNTRIES WITH AVAILABLE RESOURCES. FINANCIAL INSTITUTIONS LIKE THE INTERNATIONAL MONETARY FUND WILL BE ABLE TO PARTICIPATE IN THE FINANCING BY ADAPTING CERTAIN OF THEIR INSTRUMENTS. IN CERTAIN CASES, THE PRODUCING COUNTRIES CAN ALSO PARTICIPATE IN THE COSTS.

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10. "THE SPECIFIC ACTIONS PROPOSED". THE COMMISSION PROPOSES SIX LINES OF ACTION:

"COMMERCIAL COOPERATION"--A) ELIMINATION OF TARIFFS AND NON-TARIFF BARRIERS ON RAW MATERIALS; B) REDUCTION BY THE DEVELOPED COUNTRIES OF THE PROTECTION THEY NOW PROVIDE FOR PRODUCTS WHICH ARE ESSENTIALLY THE FIRST PROCESSING OF RAW MATERIALS; C) SPECIAL CONCERN FOR TROPICAL PRODUCTS; D) A JUST SOLUTION MUST BE FOUND TO THE PROBLEM OF EXPORT RESTRICTIONS.

11. "INDUSTRIAL COOPERATION". THE EC OBJECTIVE SHOULD BE TO ENCOURAGE DEVELOPMENT AND PROCESSING OF RAW MATERIALS IN THE LDC PRODUCING COUNTRIES, TAKING INTO CONSIDERATION EMPLOYMENT PROBLEMS IN THE PRODUCING COUNTRIES AND THE CONSUMING COUNTRIES. A FRAMEWORK SHOULD BE ESTABLISHED BETWEEN THE EC AND THE PRODUCING COUNTRIES WHICH ENCOURAGES CLOSER RELATIONS BETWEEN THE PRIVATE SECTOR AND THE PRODUCING COUNTRIES ON PROBLEMS OF SUPPLY AND INVESTMENT.

12. "PRODUCTION AND SUPPLY". UNDER THIS TITLE THE COMMISSION SUGGESTS THAT FINANCIAL INSTRUMENTS BE FOUND TO FAVOR THE PRODUCTION AND SUPPLY OF RAW MATERIALS. (MISSION COMMENT: THIS ALLUDES TO THE TRIANGULAR ARRANGEMENT THE COMMISSION HAS DISCUSSED INVOLVING THE USE OF OIL-PRODUCER FUNDS FOR INVESTMENTS IN RAW MATERIALS IN LDCS.) (REF D).

13. "INFORMATION AND CONSULTATION". THIS ACTION WOULD BE DIRECTED AT ENCOURAGING, AT AN INTERNATIONAL LEVEL, AS IS DONE FOR CERTAIN RAW MATERIALS, THE EXCHANGE OF INFORMATION ON SUPPLY AND DEMAND WHETHER WITHIN THE CONTEXT OF COMMODITY AGREEMENTS OR IN ANY OTHER APPROPRIATE FORA.

14. "MEASURES DESTINED TO LIMIT EXCESSIVE PRICE FLUCTUATION". IN THIS DISCUSSION OF COMMODITY AGREEMENTS THE COMMISSION POINTS OUT THAT THE EC ALREADY PARTICIPATES IN THE COFFEE, COCOA AND TIN LIMITED OFFICIAL USE

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AGREEMENTS. IT HAS INDICATED ITS INTENTION TO DISCUSS ON A COMMODITY-BY-COMMODITY BASIS AGRICULTURAL AGREEMENTS FOR SUGAR, WHEAT, RICE AND CORN. OTHER COMMODITIES MUST ALSO BE EXAMINED ON A CASE-BY-CASE BASIS WITH A PRIORITY FOR THOSE

COMMODITIES THAT ARE PRINCIPALLY EXPORTED BY DEVELOPING COUNTRIES AND SUFFER WIDE FLUCTUATIONS. THE COSTS AND BENEFITS OF SUCH AGREEMENTS MUST BE WEIGHED. IF BUFFER STOCKS ARE CALLED FOR, THE FUNCTIONING OF COMMODITY AGREEMENTS MAY BE IMPROVED IF THE CONSUMERS PARTICIPATE IN FINANCING THE STOCK AND IN THE MANAGEMENT OF THE SYSTEM.

15. REGARDING INDEXATION OF PRICES OF RAW MATERIALS, THE PAPER IS VERY CAREFULLY WORDED. IT NOTES THAT THE QUESTION OF INDEXATION WILL CERTAINLY BE THE OBJECT OF LONDON DISCUSSIONS IN INTERNATIONAL FORA." "THE DIFFICULTY OF THE PROBLEMS POSED IN THIS DOMAIN, NOTABLY IF ONE HOPES FOR A SYSTEM WHICH ASSURES AN EQUITABLE BALANCE AMONG THE PRODUCING COUNTRIES THEMSELVES AND BETWEEN PRODUCING AND CONSUMING COUNTRIES, DESERVES TO BE UNDERLINED. UNDER THESE CONDITIONS, IT WOULD BE AN ERROR TO SEE A PANACEA PERMITTING THE SOLVING OF ALL THE PROBLEMS BY A SIMPLE FORMULA. THE COMMISSION RESERVES ITS POSITION AND WILL RETURN TO THE SUBJECT."

16. "STABILIZATION OF EXPORT EARNINGS." ALLUDING TO THE EC'S STABEX SCHEME, THE COMMISSION BELIEVES THAT IN ADDITION TO COMMODITY AGREEMENTS, INTERNATIONAL ACTION IS NECESSARY TO STABILIZE CERTAIN EXPORT EARNINGS. INDUSTRIALIZED AND OIL EXPORTING COUNTRIES SHOULD PARTICIPATE IN THE FINANCING. THE COMMISSION DOES NOT REPEAT NOT HAVE IN MIND A MERE EXPANSION TO WORLD SCALE OF THE STABEX SCHEME CONTAINED IN THE LOME CONVENTION HOWEVER, DIFFICULT QUESTIONS MUST BE ANSWERED AND THE DOCUMENT OUTLINES TWO ALTERNATIVE APPROACHES FOR DEALING WITH THE COUNTRIES AND PRODUCTS TO BE COVERED:

A) FIRST ALTERNATIVE (LONDON LIST OF PRODUCTS)
THE UNCTAD LIST OF 19 WILL BE THE BASE OF REFERENCE FOR THE LIMITED OFFICIAL USE

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PRODUCTS COVERED, TAKING INTO ACCOUNT THAT SOME OF THOSE ARE NOT OF PRIMARY INTEREST TO DEVELOPING COUNTRIES. HOWEVER, THE COUNTRIES COVERED WOULD ONLY BE THOSE WITH A PER CAPITA INCOME BELOW A CERTAIN AMOUNT AND IT IS ESTIMATED THAT ROUGHLY 50 COUNTRIES WOULD BE COVERED.(MISSION COMMENT: WE HAVE BEEN TOLD THAT THE PER CAPITA INCOMES CONSIDERED WERE \$220 AND \$300. UNDER THE FORMER, 42 COUNTRIES WOULD BE COVERED AND UNDER THE ATER, 55 WOULD BE.) THE ADVANTAGE OF THIS ALTERNATIVE IS THAT IT WOULD HELP THE POOREST COUNTRIES.

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B) SECOND ALTERNATIVE -- UNDER THIS ALTERNATIVE THE LIST OF COMMODITIES WOULD BE SMALLER (LIKE THE LOME CONVENTION LIST) BUT ALL LDCS WOULD BE INCLUDED. THE CRITERIA FOR SELECTING THE COMMODITIES WOULD BE WHERE EARNINGS ARE: SHARACTERIZED BY WIDE FLUCTUATIONS, COME FROM FOOD COMMODITIES OR INDUSTRIAL COMMODITIES OF PARTICULAR IMPORTANCE TO LDCS, COME FROM PRODUCTS VITAL FOR EMPLOYMENT IN THE COUNTRY. THE ADVANTAGE HERE IS THAT IT DOESN'T SPLIT THE LDCS INTO TWO CATEGORIES AND MOST INDUSTRIAL COMMODITIES, WHERE THE MARKET CAN ALLEGEDLY BE RIGGED BY CLOSE LINKS BETWEEN BUYERS AND SELLERS, WOULD NOT BE INCLUDED.

17 . "CONCLUSION" -- THE EC CANNOT ITSELF SOLVE THE PROBLEMS OF LDCS AND RAW MATERIALS BUT IT CAN PLAY AN ACTIVE ROLE IN INTERNATIONAL DISCUSSIONS. IT MUST AIM AT PROVING ING AN OPEN AND CONSTRUCTIVE RESPONSE TO THE PREOCCUPATIONS OF THE LDCS AS EXPRESSED IN THE INTEGRATED PROGRAM OF UNCTAD.
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THE COMMISSION REQUESTS THAT THE COUNCIL DECIDE
ASAP ON THE MAJOR LINES OF THE PAPER SO THAT THE
EC MAY BE READY FOR THE FORTHCOMING INTERNATIONAL
MEETINGS AND SO THAT IT MAY DISCUSS ITS POSITION
WITH ITS PARTNERS (E.G., THE US). THE COMMISSION
WILL SEND THE COUNCIL BY JUNE 20 ADDITIONAL PAPERS
ON THE PROBLEMS RAISED IN THIS PAPER. END DOCUMENT
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